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DOMESTIC BRANCH

OFFICE OF REPORTS AND ESTIMATES

CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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NORTHERN BRANCH WEEKLY

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Office of Reports and Estimates
Northern Branch

BRITISH DIVISION

UNITED KINGDOM

1. Retail price cuts will help mollify organized labor

The recent government order arbitrarily lowering by 5% the retail profit margins on utility clothing, footwear, and household textiles has been vehemently protested by the retail trades, whose associations were not consulted in advance. The government has denied any political motivation or special trade union pressure for the measure; nevertheless, its timing just before the annual conference of the Trades Union Conference will make it easier for the TUC leaders to win support for the Government's economic policy, including its hold-the-line position on wages, which will be a major issue. Meanwhile the trade associations argue in protest that the proposed 5% cuts (one shilling in the pound) will entirely remove their profit margin, will have the effect of increasing export prices, and may lead to some unemployment. The cuts are expected to stand, however, and might force increased efficiency on the distributive trades. They reduce the cost of living index by less than 1%, but as evidence of the Government's concern for the working classes they have important psychological value in connection with trade union discontents.

2. UK still interested in regional organization to maintain SE Asia stability

The course of Far Eastern events during recent months has enforced a pause--but only a pause--in British efforts to foster an organization of Commonwealth countries and other states interested in maintaining the stability of South East Asia against Communist pressure. At the London conference of Commonwealth Prime Ministers in October 1948, Foreign Secretary Bevin raised the question of a "regional association" of this sort within the Commonwealth; some advance toward it was made at the April conference of Commonwealth Prime Ministers when India, the obvious keystone of any such edifice, agreed to remain in the Commonwealth; and practical progress was made meanwhile through joint action by the UK, India, Pakistan and Ceylon.

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in dealing with the problem of the Burmese civil war. At one point in the spring it looked as if the Burma Aid Committee, consisting of the Rangoon Ambassadors of these four Commonwealth countries, might eventually become the main medium for the operation of British policy in Burma.

Since then circumstances in Burma have changed. Feeling itself in a stronger position against rebel elements, the Burmese Government has become less interested in obtaining loans and armaments--on terms--from the Burma Aid Committee, which has accordingly suspended major operations but not dissolved. Simultaneously, the Government has displayed a preference for dealing directly with the UK in London, sending Defense Minister Ne Win there in mid-July and Foreign Minister U Maung on another visit last week. Details of the loan just agreed upon by Maung and the UK Government will, however, be arranged by the Burma Aid Committee in Rangoon and the committee will become even more active when and if the Burmese Government runs into further difficulties. Nothing has changed the two basic conditions--need of Burmese rice and fear of Burmese Communism--which caused the four Governments concerned to set up the Burma Aid Committee.

In Asia generally, circumstances have also been unpropitious recently for progress toward Devin's "regional association" or an extension thereof. Any association with the Chiang-Quirino proposals for a Pacific Pact would, of course, be regarded by the UK as something resembling the kiss of death; but in any case the situations in Indonesia and in Indochina need further clarification before either of those countries themselves would be ready for inclusion in an anti-Communist front or India would be likely to look with favor on such a Western-oriented organization. Maung stated on behalf of Burma last week that he did not believe such a pact possible within the next year. Recent events in China, however, have accentuated the basic conditions such an organization would be formed to meet; and British policy-makers have given no indication of revising their belief that some move to bring together the non-Communist countries of South East Asia will eventually be necessary.

3. US-UK tension on Palestine ending

US-UK relations, though facing some strain as a consequence of Britain's financial crisis, are currently relieved of the tension resulting from the Palestine situation. The US and the UK are no longer far apart regarding a solution of

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the remaining problems. With the lifting of the arms embargo the UK is again in possession of a free hand in relation to those Arab states with whom it has treaty commitments. Although the British have stated that arms will only be supplied for internal security use, the lifting of the embargo will place them in a better position for encouraging the Arab states to adopt a less openly hostile attitude.

The British have worked out what they consider to be a satisfactory solution to the Palestine problem. The main points of that settlement include Arab acceptance of the Israeli proposal concerning the Gaza strip and its refugees, provision for the use of the port of Haifa by all the Arab states, reopening the Haifa refinery, international supervision of Jerusalem, and incorporation of Arab Palestine into Jordan. The British would like to see Israel permit the refugees now living in the Gaza strip to return to any part of Israel where they had property or other special interests. In return that strip of territory would be incorporated into Israel provided that territorial compensation is made to the Arabs if demanded. Should this compensation take the form of cession of any part of the Negev, Israel would be assured free access to the Red Sea.

The US is in substantial agreement with the above and believes that such a solution might serve as a basis for informal discussion at Lausanne. However, the Department of State has made clear that it has not accepted any of these points as a rigid policy to be adhered to during the PCC negotiations. Agreement can mean the exertion of more effective diplomatic pressure on Israel and the Arab states to accept this kind of solution, but it cannot guarantee that the settlement will be along these lines or that subsequent developments in Arab-Israeli relations may not cause a new divergence of US-UK views. Viewed in the perspective of Anglo-American relations, the importance of the present accord lies in the fact that these two countries seem no longer to have any major divergences of approach toward the type of settlement they would like to see adopted.

4. Pending retirement of the Chief of the British Air Staff--

Lord Tedder's retirement as Chief of the Air Staff on 1 January, at the age of 59, will probably not mean his retirement from public life. There is reason to believe that he will seek and obtain public employment in another capacity. The important implications of his departure from the Air Staff, however,

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are that the Cabinet will have a new adviser on air war, the Chiefs of Staff Committee (US equivalent: JCS) will have a new air member and a new chairman--The First Sea Lord taking the chair--and the Western Union Chiefs of Staff will have a new British representative. Tedder's replacement is to be Air Chief Marshal Sir John Slessor, age 52, at present Commandant of the Imperial Defense College. Slessor is regarded as both able and personable. He will probably not rush any broad policy changes, but there is some question whether he will be quite as conciliatory toward the other services as Tedder, whose critics have called him too conciliatory to be a good advocate for air-power.

CONTACT WITH COMMISSION

Sweden

1. Swedish trade under Russian credit agreement

That Sweden is prepared to increase its trade with Eastern Europe can be interpreted from recently concluded agreements between a Soviet Purchasing Commission and various small West coast shipyards for delivery to the USSR of fishing boats and small sailing freighters worth 40 million kronor. Under the 1 billion kronor credit agreement of 1946 Sweden undertook to deliver 55 ships of which 45 were to be steel fishing trawlers and 10 to be small wooden sailing freighters. It is estimated that with the new orders the quota on freighters has been filled but statistics on the delivery of fishing trawlers are not available.

The Soviets have been negotiating for over a year with Swedish shipyards regarding these vessels, but until recently have not been willing to pay Swedish prices. Although the Swedes claim that no reduction was made, it seems likely that smaller shipyards, faced with a drop in new orders, may have made downward adjustments in their prices in order to close contracts.

The Swedish Foreign Office estimates that the total value of contracts so far closed under the credit agreement is approximately 320 million kronor and that, since some of these contracts will be cancelled or revised downward and since only a few orders appear likely to materialize, the final amount committed before expiration of the agreement in 1951 will not exceed 400 million kronor. Heretofore Swedish manufacturers

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appear intentionally to have set quotations high and stipulated unsatisfactory delivery periods for the purpose of discouraging Soviet orders. It now seems likely, however, that with prices declining in the international market, Swedish manufacturers may solicit Soviet orders much more vigorously.

Denmark

2. Calories and crises

The minority Danish Government (Social Democratic), which only recently avoided a cabinet crisis over South Schleswig may face a governmental crisis on economic issues with subsequent elections when the Rigsdag (Parliament) reconvenes in October. The Government unofficially admits that a recent measure increasing the permissible butterfat content of milk for consumption from 3.0 to 3.5 percent was passed to appeal both to farmers and urban consumers in order to strengthen its position with the electorate should such a crisis occur.

The Government has been gradually reducing the restrictions on consumer goods. Previous measures have not seriously affected the recovery program; but it is estimated that the annual increase in domestic butterfat consumption, equivalent to approximately 4,300 tons of butter, will deprive Denmark of potential soft currency foreign exchange earnings equivalent to \$4.5 million. Since the dollar-cost of ECA-financed feed stuffs required to produce 4,300 tons of butter is estimated at \$2 million, the proposed measure will in reality divert \$2 million of ECA funds from production for export to production for internal consumption.

The Social Democratic Government believes that the measure will strengthen the position of the government and favor political stability by placating large segments of the public. However, if ECA adjusts allocations by reducing feedstuff imports to Denmark by \$2 million, the opposition parties' criticism of the Social Democratic Government for failure to pursue a vigorous policy of recovery will be strengthened.

Iceland

3. Possible solution for Iceland's political impasse

Iceland's problem of an ineffectual coalition government may be solved by a presidential prorogation of the Althing

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upon the request of the Prime Minister. Elections would then be mandatory within two months of the dissolution.

The parties forming the Government have taken diametrically opposite views on the possible remedies for the present economic difficulties and a compromise has not been possible. There are three solutions for the impasse: 1) marking time until after the regularly scheduled elections next year; this course seems leastlikely, 2) withdrawal by one or more parties constituting the cabinet; this would precipitate elections and has been threatened by the Progressive Party leaders as a move to improve their party position, 3) prerogation of the Althing by the president; this political expedient would relieve any party of the onus of causing the resignation of the cabinet. It is the most desirable procedure but requires the unanimous consent of the Government parties.

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